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Chair

The Honourable Wayne Easter

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● (1105)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We shall call the meeting to order.

As everyone knows, we're dealing with the budget implementation bill, Bill C-74, and we are continuing from where we left off with our previous discussion on part 5.

The officials are here first to deal with the proposed greenhouse gas pollution pricing act. I think we're about to continue further questions.

Are there any?

Mr. Albas.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

Thank you again to the officials for the work that you do for Canadians.

In regard to your comments last week, Mr. Moffet, you mentioned to this committee that part of the government's plan includes, obviously, a carbon tax or, as you like to refer to it, a price on carbon. You also mentioned that there would be further need for regulations for certain elements and for environmental policy.

However, you also said there would be a need for innovation. You said specifically that there would be market failures, thus innovation would be necessary. By "market failures", did you mean market failures as a result of markets not being properly formatted or created in a way that they can function smoothly? Or did you mean market failures as in certain industries—let's say, paper and pulp in British Columbia—where if the price of carbon goes up too high, then subsidies would be necessary for them to operate in a cost-competitive atmosphere?

Mr. John Moffet (Associate Assistant Deputy Minister, Environmental Protection Branch, Department of the Environment): Yes, I did use a very general term, "market failures". Maybe I could just expand on that a little. There are various scenarios in which carbon pricing on its own either won't work or won't work fast enough. It's for that reason that the pan-Canadian framework also includes regulations and financial incentives for innovation. I'll give you a few examples.

One very straightforward one that the chair will be familiar with is that carbon pricing can only work when it's imposed on something we can measure accurately and systematically. It's for that reason that we don't impose carbon pricing on methane emissions from livestock. We know it happens. There's no generally accepted way to measure, monitor, report, and attribute it to an individual farmer. There's no system and there's no way to use carbon pricing to address that kind of issue. You need a different kind of measure to create an incentive to reduce that kind of emission. That's one area where, with the market itself—and maybe "market failure" is not the right term—the use of a carbon price wouldn't work.

At the other extreme, an example of emissions we absolutely know about and can measure are emissions from electricity generation facilities that are coal-fired. We know those are major contributors to greenhouse gas, but we also know that investments in electricity generation facilities cost tens of millions of dollars and have a capital lifespan of decades. To ensure that no further investments are made in coal-fired electricity generation, rather than rely on a price signal that would increase over time and that may or may not deter future investment, the government chose, in addition to carbon pricing, to also regulate those facilities. This would provide clear direction to the Canadian economy and to provincial governments and others that might invest in electricity generation that certain types of investments will no longer be allowed, regardless of what the prevailing carbon price would be.

On your question as to whether there are industries that might be adversely affected, the position of the government is not that a carbon price—and I'm going to use a double negative—should not be imposed on those facilities, but rather that those kinds of considerations are more realistically to be considered regional industrial policy and can be best dealt with by means of decisions that provincial governments can make about carbon pricing revenue return. As an intermediary policy, the government has also put in place various financial programs that can be used, among other things, to, for example, enable industry to invest in energy efficiency or in low carbon technology to enable them to minimize their exposure to a carbon price.

I hope that answered your question at least in part.

Mr. Dan Albas: I have a better understanding.

Thank you.

The Chair: Are there any further questions?

If there are any over here, put your hand up.

Mr. Dusseault, then Mr. Kmiec.

Go ahead, Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): I would like to come back to the concept of revenue neutral. You said that it was possible to redirect funds to the provinces. You deliberately avoided saying that those funds would go back to the provincial governments that do not have a system and that will benefit from the federal backstop.

Has it already been decided how the funds would be redirected to the provinces, or to the jurisdictions, as you say?

The money could go directly to funds for green policies or technologies. This could help companies change their consumption habits or their technologies. Otherwise, it could be allocated to the people through a rebate system like the one that Alberta uses. Yesterday, this was again discussed in committee. Under that system, the less fortunate people in Alberta end up with more money in their pockets. Yesterday, it was estimated that, for the less fortunate, the cost was about $218 a year and that the Alberta government gave them back about $290 a year.

How are you going to redirect the money to the provinces?

● (1110)

Mr. John Moffet: Thank you for your question.

[*English*]

The law provides two things. First, it requires that the government return all direct revenue to the jurisdiction, but then it provides discretion as to how to do that. It can return the money to the government or to designated persons.

Minister McKenna has stated publicly that provinces or territories that ask for the backstop to be applied will receive the money directly to the provincial or territorial government. So far, although it has not been made formal, a number of governments, New Brunswick and Yukon, for example, have indicated that they want the backstop to be applied, at least in part.

Then we have the issue of a jurisdiction that does not ask for the backstop to be applied but where the federal government determines there is not a system in place that meets the federal benchmark. All I can tell you at this point is what the law says, namely, that it provides the government with these two options. If the government chooses not to return the revenue to the provincial or territorial government, it will need to designate persons, and the government has not yet made any public indication of how it will do that or who those persons might be. Will it be in the form of a technology fund, will it be directly to households, or will it be some combination of all those are options? That decision has not been made yet.

Mr. Pierre-Luc Dusseault: So you're asking this committee to give you the discretion to decide how to reinvest the funds in those provinces because you haven't made up your mind yet?

Mr. John Moffet: The government hasn't made up its mind; that's true. What's in front of the committee is the law that provides for that discretion.

Mr. Pierre-Luc Dusseault: Thank you.

The Chair: Thank you, Mr. Dusseault.

Mr. Kmiec.

Mr. Tom Kmiec (Calgary Shepard, CPC): Going on to the rebate again, I noticed the same thing in these different sections, namely, that the government will have the ability to rebate it in any way it wants to. Am I understanding this? There's a difference between what the law says and what the government has said it would do.

My reading of the legislation is that if there is a rebate system, the federal government can determine exactly who will get the rebate, what manner the rebate will be remitted in a particular province, and the specific individuals or companies that might get it. Am I correct?

Mr. John Moffet: I'll defer to my colleagues, but I think that's broadly correct.

Again, if the federal government chooses not to return the money directly to the provincial or territorial government, it would first have to designate persons by means of regulation. So there will be a transparent public process by which the government will designate how the money will be returned.

● (1115)

Mr. Tom Kmiec: It's a cabinet process, right?

Mr. John Moffet: Yes.

Mr. Tom Kmiec: That's not public; the public is not invited to cabinet, right?

There's the *Canada Gazette*. Do you mean that is a public process?

Mr. John Moffet: Yes.

Mr. Tom Kmiec: The majority of the public doesn't read the *Canada Gazette*. But it's there, you're saying.

Mr. John Moffet: It's a standard regulatory process. I'm not sure if you're asking me a question or making a comment.

Mr. Tom Kmiec: In section 48 of the regulations, the wording you have is that the minister must pay a rebate in respect of fuel or combustible waste in a listed province to a person of a prescribed class or a person meeting prescribed conditions in the amount determined in a prescribed manner if prescribed circumstances exist or prescribed conditions are met.

That's the catch-all term to mean that even if there is a disagreement between the federal and provincial governments over how the rebate works, they could impose one. That's just the law. I'm not saying that the government would do that.

Does the law give the federal government the ability to overrule the provincial government in the rebating system if it so desires?

Mr. Pierre Mercille (Director General (Legislation), Sales Tax Division, Tax Policy Branch, Department of Finance): You're pointing to section 48, which is actually not the rebate that was discussed before. That is the money to be returned to the jurisdiction of origin.

This is a different rebate. There's a full division about some.... There are a number of limited rebates that businesses that have paid the fuel charge might be entitled to receive in certain circumstances.

I can give you one example. If a person brings fuel into a listed province, which is the province in which the fuel charge would apply, at the time the person brings the fuel, they will pay the charge. If subsequently the person decides to remove the fuel from the listed province, the person who paid the fuel charge might be entitled to a rebate of that fuel charge if they become registered with the CRA.

This is a particular example of a situation where a rebate has been identified as being desirable to ensure that it is the fuel that is consumed in the listed province that is subject to the pricing.

The provision you're pointing out right now was put in place to address potential future issues that could be identified by stakeholders or by the CRA, and to allow the government to be in a position to rapidly address a situation that is not in line with the policy intent of the legislation.

Mr. Tom Kmiec: Thanks for that clarification.

How many different rebate mechanisms are in the legislation?

Mr. Pierre Mercille: There's a rebate for fuel that is removed from the listed province. There's another rebate. I can explain that one to you too. It's that—

Mr. Tom Kmiec: I just want to know the total number of the types of rebates.

Mr. Pierre Mercille: There's a rebate for fuel removed from the listed province. There's a rebate for fuel brought to a covered facility. There's a rebate for fuel used in a non-covered activity. There's a rebate for net fuel quantity; this deals with the special rules for the carriers. There's a rebate for an annual net fuel adjustment, which is a special rule for rail carriers. As you pointed out, there's a provision for rebate by regulation. There's a general rule for rebate of a charge paid in error.

That's basically it.

Mr. Tom Kmiec: How would it work, then, for past agreements? Alberta has a carbon rebate program run by the CRA. Will that be grandfathered in or will it be reviewed again to bring it into conformity with the different rebates found in this piece of legislation?

Mr. Pierre Mercille: Can you clarify for me what rebate in Alberta you're referring to?

Mr. Tom Kmiec: It's the carbon tax rebate that's collected. I think it's called the Alberta climate leadership plan, or something like that.

Mr. John Moffet: I can answer that.

As long as the Alberta government retains its current carbon pricing system, this legislation will not apply in Alberta. There will be no interaction.

I appreciate that "rebate" is a general term, but the rebates that my colleague referred to are a kind of formal return of funds that have been overpaid. For example, you paid it on all the fuel, and then you realized that you didn't use all the fuel for that purpose, and some of it left the province. So the CRA owes you some money back. That's a formal rebate.

The other issue we were talking about is the return of the revenue that has been paid. After it's all been squared away, all these rebates have been paid, there is revenue that has been paid, which the federal government will have collected, and the commitment is to return it in some way to the jurisdiction.

● (1120)

Mr. Tom Kmiec: So that's a commitment, but it's not legislated?

Mr. John Moffet: No, it is. It is legally required to be returned in one of two ways: to the government or to designated persons. It is a legal obligation that the federal government cannot keep any of the direct revenue.

Mr. Tom Kmiec: It has to give it to someone, a province or a person.

Mr. John Moffet: —or a person within the province.

Mr. Tom Kmiec: Okay.

The Chair: Is that it, Tom?

Mr. Tom Kmiec: For now, yes.

The Chair: We'll have Mr. Poilievre and then Mr. Sorbara.

Hon. Pierre Poilievre (Carleton, CPC): Will the government return the GST collected on the carbon tax to the population where that GST was paid?

The Chair: Mr. Coulombe, or Mr. Mercille.

[*Translation*]

Mr. Gervais Coulombe (Director, Sales Tax Division, Tax Policy Branch, Department of Finance): The bill before you does not have any GST provisions. The GST is a broad-based tax and is applicable to goods or to services rendered. The rules for calculating the GST are not affected by this bill.

Hon. Pierre Poilievre: Will the GST be refunded to the province or to the people from whom the income originally came?

Mr. Gervais Coulombe: I am not aware of any political decisions made in this sense. Carbon pricing mechanisms, like the federal system you have before you, ensure that the direct revenue generated by the instrument are returned to the provinces or to designated persons in the province, as my colleagues mentioned earlier.

The carbon pricing systems currently in place, be it in Quebec, Ontario, Alberta or British Columbia, generally end up as part of the price of a litre of gasoline, for example. The GST is applied on that amount and the provincial part of the HST, if any, of course, is returned to the provinces. The GST is outside the current debate on Bill C-74.

Hon. Pierre Poilievre: No, it's not outside the debate, because people will have to pay the tax not only on the product they buy, but also on the added cost of the carbon tax.

You used the adjective "direct". You said that the revenue collected directly from the carbon price would be refunded to the provinces or to their people.

Will the GST on the carbon tax be considered direct revenue, according to the bill before us?

Mr. Gervais Coulombe: The legislative authority that requires the government to return carbon pricing revenue to the provinces and territories does not apply to revenue generated by other tax measures such as the GST.

Hon. Pierre Poilievre: Under the legislation, will the government be required to repay the GST collected on the carbon tax to the people from whom it was collected?

Mr. Gervais Coulombe: Based on my understanding of these legislative amendments, the government is not going to seek an authorization like that from Parliament. It's outside.

We must also remember that we are dealing with an environmental instrument. The primary purpose of this instrument is to reduce greenhouse gas emissions and change behaviour in Canada. There may be interactions with other laws or tax measures.

Hon. Pierre Poilievre: I understand, and I think—

● (1125)

[*English*]

The Chair: I believe Mr. Moffet wanted in on this discussion as well.

Mr. John Moffet: I don't speak for Finance, but I was going to provide the simple answer. Your last question was whether the legislation requires the return of GST collected with respect to the carbon price payments, and the answer is no. As my colleagues explained, what the federal government does with the GST revenue is a separate policy matter, and it's not covered in this legislation.

Hon. Pierre Poilievre: Is there nothing in this legislation, Mr. Moffet, that would require the government to return GST collected on the carbon tax to the province or people who paid that GST?

Mr. John Moffet: Not in this legislation, no.

The Chair: There would be one exception, though, under current law. That is where GST is rebated to various users, such as farmers, fishermen, etc. They have their full GST rebated, and it would apply.

Mr. John Moffet: My colleagues can speak to that in more detail. There are existing obligations and arrangements with respect to collecting and returning GST. Those are not affected at all, but they are all completely outside of this legislation, as my colleagues explained.

Hon. Pierre Poilievre: Will the carbon tax proposed in this legislation achieve Canada's obligations to reduce greenhouse gases under the Paris Accord? Will we meet our targets?

Mr. John Moffet: I will come back to the response I provided to your colleague, Mr. Albas, which is that the carbon pricing across Canada will make a significant contribution to reducing emissions in Canada. As such, it is considered to be a foundational measure within the pan-Canadian framework, but it is not the exclusive measure. It is not the only measure the federal government or the provinces are relying on to reduce emissions and to attain the Paris target.

Hon. Pierre Poilievre: How many million tonnes in annual emission reductions does Paris require Canada to achieve?

Mr. John Moffet: I don't know. I can get you that number before the end of this hearing. That will be a reduction relative to a baseline of 2005. That's how we established the target. The study we released last week indicated that pricing across Canada by 2022 will result in emission reductions of approximately 30 megatonnes. The federal government and the provinces have committed to collectively reviewing where we go with carbon pricing after 2022, so it's not possible beyond very broad generalities to predict what additional contribution carbon pricing might make between 2022 and 2030.

Again, it is a foundational measure designed to change behaviour, reduce emissions, and thereby make a contribution. It is not the exclusive method of attaining our target.

Hon. Pierre Poilievre: You say after 2022 there could be additional measures, when the price would go up to $100 or $200 a tonne.

Mr. John Moffet: The future of carbon pricing is going to be for the federal, provincial, and territorial governments to determine before 2022. If nothing changes, and in particular if nothing changes in this legislation, then the carbon price we've established in this legislation for 2022 would remain in place, and that's $50 per tonne.

A legislative change would be required to change the price. Similarly, provinces with their own pricing system will need to make legislative or regulatory changes.

● (1130)

Hon. Pierre Poilievre: Has someone on your dais been able to find the annual reductions we are required to achieve under Paris?

Mr. John Moffet: I'm asked this all the time. I should have the number. I will get it. Maybe we can—

The Chair: We can go to other questions.

Mr. John Moffet: I will respond. I'm not trying to duck the question.

The Chair: We can go to other questions, Mr. Moffet—

Mr. John Moffet: I just need a few minutes to check my numbers.

The Chair: —and come back to you.

It was also in the documentation that somebody mentioned yesterday.

Mr. Poilievre, do you want to think about for awhile? We'll go to this side and come back?

Hon. Pierre Poilievre: Can I resume questioning afterward?

The Chair: Yes.

Mr. Sorbara, then Mr. Dusseault. Then we'll back to on Mr. Poilievre.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair. Welcome, everyone.

Yesterday during our finance committee meeting, I had wanted to get some clarification. We know this legislation pertains to a backstop where a carbon pricing system does not exist in a province or territory. But for farms and farmers, whom we support fully, can you just outline the exemption with regard to fuels used on farms, if you may, please.

Mr. Pierre Mercille: Sure.

I may go into a bit of details here—

Mr. Francesco Sorbara: Please.

Mr. Pierre Mercille: —but these are detailed rules.

In the case of a farmer, a registered distributor—the person who would normally pay the fuel charge—can deliver gasoline or light fuel oil. In the case of farmers, that is essentially diesel. They can deliver that to a farmer if the farmer certifies four things. It's basically an exemption certificate. If an exemption certificate is presented—whose conditions I'm going to describe—the fuel distributor doesn't have to pay the fuel charge on the fuel that is delivered to the farmer. Therefore, the carbon priced is not built into the selling price of the fuel.

The farmer needs to certify that essentially he's a farmer, that the fuel is being delivered at a location that is a farm, that the fuel is exclusively for use in the operation of eligible farm equipment, and that substantially all of the fuel is for use in eligible farming activities. As I said, if these conditions are met, the fuel distributor will be allowed to deliver the fuel without the fuel charge applying.

The concepts of farmer, eligible farm equipment, and eligible farming activity are defined terms within the legislation:

> farmer means a person that carries on a farming business with a reasonable expectation of profit.
>
> eligible farming machinery means property that is primarily used for the purposes of farming and that is
>
> (a) a farm truck or a tractor;
>
> (b) a vehicle not licensed to be operated on a public road;
>
> (c) an industrial machine or a stationary or portable engine; or
>
> (d) prescribed property; but does not include
>
> (e) a vehicle that is an automobile as defined in subsection 248(1) of the Income Tax Act;
>
> (f) property that is used for the purpose of providing heating or cooling to a building or similar structure; or 20
>
> (g) prescribed property.
>
> eligible farming activity means
>
> a) the operation of eligible farming machinery on a farm for the purposes of farming;
>
> (b) the operation of eligible farming machinery for the purposes of going from a location at a farm to another location at a farm; or
>
> (c) a prescribed activity.

This is essentially how the exemption certificate works for farmers. I'm also going to add more information here.

Under this legislation the general rule is that if you're entitled to use a exemption certificate, you have to register with the CRA and produce monthly returns. In the case of farmers, that requirement has been removed. They do not have to register with the CRA.

Mr. Francesco Sorbara: Okay.

Is this exemption certificate an annual thing that the farmers will have to complete? Or, once they have received it, and there's a change in their business conditions, they will have to inform the CRA?

It's great to hear about the exemption for our farmers.

Will they have to renew this annually? Or will this be something they're given and until there is a change in their business and CRA is informed, then they will have to go back.

● (1135)

Mr. Pierre Mercille: On the exemption certificate, the CRA will likely publish a model with the information that is required. It is a piece of paper that the farmer is going to fill out. Essentially it works for every delivery of fuel the farmer will receive. He will have to present the certificate.

You can foresee that in an ongoing relationship with a fuel supplier, the exemption certificate may be on record at the fuel distributor. Basically he's just asking whether the farmer will use the exemption certificate when he wants delivery of a particular fuel.

Mr. Francesco Sorbara: I just want to clarify something. In terms of vehicles, you said that as defined in the Income Tax Act, if a farmer has a Ford F-250 pickup truck, which can be used to drive around town but also to deliver vegetables, fruits, or whatever they're growing and working hard at, that vehicle will still be exempt, because it is used for work purposes but can be used for non-work purposes on an evening or weekend.

Mr. Pierre Mercille: In terms of vehicles, what we try to do is to link to the Income Tax Act, because there are rules in the Income Tax Act that deal with vehicles—what is an automobile, what is not an automobile. The term "automobile" includes some pickup trucks.

The way we see it is that the farmer will know, because under the Income Tax Act, you're not allowed the same deduction, the capital cost allowance, for an automobile versus a vehicle that is used for farming. So if the farmer is compliant with the Income Tax Act, he will know whether his vehicle would be eligible to receive fuel without the fuel charge applying.

Mr. Francesco Sorbara: Okay, and obviously this will only occur in jurisdictions where there is a carbon pricing policy has not been put in place, correct?

Mr. Pierre Mercille: The fuel charge will only apply in listed provinces, and these listed provinces are the provinces that don't have a carbon pricing system in place that meets the federal standard.

Mr. Francesco Sorbara: The way the legislation has been designed, in accordance with our policy platform that we ran on and Canadians elected us with a majority for, is that each province is to decide the system that best suits its needs.

Mr. John Moffet: That's what the government's pan-Canadian approach to pricing carbon pollution states, so long as the province or territory establishes a system that meets the basic criteria in that benchmark.

Mr. Francesco Sorbara: One of them is $20 per tonne by 2019 and it goes up to $50 a tonne three or four years later, 2022, if I'm not mistaken. Is that correct?

Right now, my understanding is that 85% of the Canadian population is operating under some sort of system—and the economies are performing quite well—whether it's a hybrid, or pure cap and trade, or a carbon price such as the Province of British Columbia has operated for well over a decade, operating under a carbon pricing plan. Is that correct?

Mr. John Moffet: That's correct, and I believe you heard evidence yesterday of both the impacts of British Columbia's system: you heard of if reducing emissions and also the observation that those four jurisdictions that have carbon pricing have experienced the largest GDP growth in Canada.

Mr. Francesco Sorbara: In reference to what one of my colleagues on the other side said about how decisions are made in terms of things going into the *Canada Gazette* and cabinet decision-making, I think that Canadian democracy has utilized that system for more than 150 years. Any stakeholders or intervenors wishing to participate in that process are allowed to participate, including in this very robust debate on how to deal with an issue that the whole world is facing, which is climate change.

So with all due respect to my colleague, Canadians do have an opportunity to express their views and opinions. A government is elected based on a platform, and part of that platform was to deal with climate change, and through the pan-Canadian framework, we are.

I'd welcome any folks, stakeholders, to always present their opinions, whether here at finance committee or through the *Canada Gazette* process. That's the way we've operated, in our democracy, and for my colleague on the other side to say something different, I think, is inaccurate, to be blunt.

I did wish to comment on that front. Thank you.

● (1140)

The Chair: Mr. Moffett.

Mr. John Moffet: I just wanted to indicate, with apologies for the delay, that I do have the most current numbers that Mr. Poilievre asked for, and I can give them now or later.

The Chair: We'll go to those figures now, and then we'll go to Mr. Dusseault and come back to Mr. Poilievre.

Mr. Moffet has the answer to your original question, but Mr. Dusseault is next on the list to raise questions.

Mr. Moffet, go ahead.

Mr. John Moffet: The commitment that Canada made in the Paris accord is to reduce our emissions from 2005 levels by 30%.

The calculation of emissions changes slightly from year to year, based on the application of internationally accepted and continually evolving modelling methodologies. The most recent report that we submitted to the United Nations Framework Convention on Climate Change indicated that our 2005 emissions were 738 megatonnes, so 30% of that equals 517, necessitating a reduction of 221 megatonnes.

The other number we reported in our most recent report to the United Nations framework convention is that to achieve that target of 517 megatonnes in 2030, relative to what we projected emissions to be in late 2015—which we reported in early 2016 in Canada's second biennial report on climate change to the United Nations framework convention—would have required a reduction of 298 megatonnes. That's because emissions had grown since 2005, so we're trying to bend the curve that was actually going up for a while, since 2005.

The Chair: Okay.

Hon. Pierre Poilievre: Chair, may I clarify that?

The Chair: Sure.

Hon. Pierre Poilievre: You are saying that by 2030 we need to reduce emissions by 221 megatonnes?

Mr. John Moffet: Yes, relative to where they were in 2005.

Hon. Pierre Poilievre: But relative to where they are today, I'm asking.

The Chair: That's changed to 298 megatonnes now, right?

Mr. John Moffet: Today they are slightly lower than where they were in 2005, but it's approximately the same reduction obligation.

Hon. Pierre Poilievre: So it's 221 megatonnes—

Mr. John Moffet: That's a ballpark figure.

Hon. Pierre Poilievre: —per year by 2030.

Mr. John Moffet: No, by 2030, not per year.

The commitment Canada made, the way it articulated its target, was that in 2030 our emissions would be 517 megatonnes. In theory they could be significantly more than that, and then decline dramatically in one year. I'm not suggesting that's going to be the case, but there is no commitment as to what the absolute emissions will be prior to 2030. There is a commitment to take measures to reduce emissions to get to the point where by 2030, they are at 517 megatonnes.

Hon. Pierre Poilievre: That is 517, representing a reduction of roughly 221 megatonnes by 2030.

Mr. John Moffet: Correct.

Hon. Pierre Poilievre: Can I come back to my question?

The Chair: Yes, you can come back, and we'll go to Mr. Dusseault.

But I'm just a little bit confused here, Mr. Moffet. You said that due to the increased greenhouse gases since, you used the figure 298 megatonnes.

● (1145)

Mr. John Moffet: Right. Sorry, and that was reported in February, 2016.

Mr. Poilievre asked as of today. In the last two years, emissions have gone down since February 2016, so the gap or the amount we need to reduce has also declined.

The Chair: All right. Thank you.

Mr. Dusseault is next, then Mr. Poilievre, and then Mr. Kmiec.

[*Translation*]

Mr. Pierre-Luc Dusseault: Mr. Mercille, since we are talking about exemptions for farmers, do you have the list of other exemptions? Yesterday, one of the criticisms was that there were exemptions for a number of industries. Can you remind the committee which industries?

Mr. Pierre Mercille: I'm not sure I have the list. The legislation specifies the cases where the fuel charge applies, but it does not necessarily list the cases where it does not apply.

I have a little trouble talking about what is not in the bill.

Mr. Pierre-Luc Dusseault: You also talked about exemption certificates.

Mr. Pierre Mercille: Yes. We have to know who can use them.

Mr. Pierre-Luc Dusseault: You say that farmers do not have to register with the Canada Revenue Agency. Is that correct?

Who else could benefit from exemption certificates?

Mr. Pierre Mercille: As an example, let me refer to the typical case of a registered distributor selling fuel to another registered distributor. In that context, the second distributor could show an exemption certificate so that the first distributor does not have to pay the fuel charge. The obligation to pay the charge would then be transferred to the second registered distributor.

Furthermore, some carriers will have the right to use exemption certificates. They are mostly carriers that do a lot of interprovincial and international transportation. They will have to do a self-assessment for the fuel they use in the province.

There is also a big exception, which has been explained. The fuel charge is discussed in part 1 of the bill and a pricing regime based on performance in part 2. Companies or facilities that are subject to the regime specified in part 2 will have the right to submit exemption certificates to their suppliers. In that case, the fuel used in those facilities will be subject to the prices defined in part 2, not part 1, of the bill.

[*English*]

Mr. David Turner (Tax Policy Analyst, Sales Tax Division, Tax Policy Branch, Department of Finance): There is one other category of person that is entitled to use an exemption certificate. It's called a "registered user". Their certificate is for the use of fuel in certain ways. There's a defined term in the legislation called "non-covered activity". With fuels that are used in those non-covered activities by those registered persons, the person is also entitled to present an exemption certificate in respect of those activities. Those activities are fuel that is used as a raw material in industrial processes that produce another fuel, or another substance, material, or thing.

This is when fuels are used in a way so as not to attract a charge. There are also activities in there where fuel is used "as a solvent or diluent in the production or transport of crude bitumen or another substance, material or thing". That fuel also must be used in that way, but it must not be burned essentially. It must not be put into a fuel system that produces heat or energy.

[*Translation*]

Mr. Pierre-Luc Dusseault: Could you tell me how the decision is made to grant certain users, particularly carriers, exemptions from the fuel charge?

● (1150)

Mr. Pierre Mercille: It must be understood that those exemptions affect one link in the chain. Fuel consumption in the province will still be subject to the fuel charge or the regime set out in part 2 of the bill.

There are distribution chains. This does not mean that they will be exempt from the charge, but rather that another person will pay for it. The person using the certificate can pay for it.

Mr. Pierre-Luc Dusseault: Is it for the purpose of avoiding double taxation?

Mr. Pierre Mercille: Yes, in a number of cases.

Mr. Pierre-Luc Dusseault: In terms of the transfer of funds to the provinces, I imagine that all the data on those charges will be published in the annual report on the application of the act.

Will it be possible to find out exactly the revenue generated by carbon pricing in the designated provinces, how much money is returned, to whom and how?

I would like to know what mechanism will allow us to ensure that the revenue is in fact neutral and to find out who ultimately gets the funds.

Mr. Philippe Giguère (Manager, Legislative Policy, Department of the Environment): Yes, the information will be summarized in the annual report. My colleagues from the finance department can tell you more about that, but the information is also published in the public accounts. The annual report is definitely a way to ensure that the information is easily accessible and available in plain language to make it possible to understand how the legislation works.

[*English*]

Mr. John Moffet: Just for clarity's sake, the law actually requires an annual report. I think we talked about that last week.

[*Translation*]

Mr. Pierre-Luc Dusseault: Yes. That's right.

That's great, thank you.

[*English*]

The Chair: Thank you, Mr. Dusseault.

Mr. Poilievre?

Hon. Pierre Poilievre: Back to the question of the Paris targets, Mr. Moffet, you said that we would have to reduce our emissions by 221 megatonnes by 2030 to reach our Paris commitments. How much will the carbon tax in this budget bill reduce greenhouse gas emissions?

Mr. John Moffet: What we provided in the study last week is an estimate of what carbon pricing across Canada will achieve, which is 80 megatonnes to 90 megatonnes by 2022.

I have two additional points. First, repeating the points I made last week, we don't know what the contribution of this legislation will be, because we don't yet know which provinces will implement their own systems. If they implement their own systems, this system won't apply. Nonetheless, the collective contribution of carbon pricing by 2022 will be in the range of 80 to 90 megatonnes.

Second, we don't know, at this point, what the contribution of carbon pricing might be in 2030 because we don't yet know what carbon pricing will look like post-2022 in Canada.

Hon. Pierre Poilievre: What do you mean "look like"?

Mr. John Moffet: Well, federal and provincial governments have committed to review carbon pricing. Provincial governments may change. Provincial governments may remove their pricing system, change their pricing system, add a new pricing system. The federal government may change. The federal government may change the pricing system.

Hon. Pierre Poilievre: You indicated earlier that if nothing happens at the federal level, if nothing changes in the law, then the mandatory $50 a tonne tax will remain in place in perpetuity. Correct?

Mr. John Moffet: That's correct.

Hon. Pierre Poilievre: So that's the status quo we're projecting out of this bill. You're right, we can't predict the future. We're all better at predicting the past. All we can do when we pass a bill is just assume that it's the last bill that will be passed because we can't impose projections on bills that have not even been introduced. So if this is the final word and the federal government does impose a $50 a tonne carbon tax on provinces, and that stays in place until 2030, how much would we see carbon emissions reduced by the time that year comes?

● (1155)

Mr. John Moffet: Again, it depends on where this bill applies. In theory, this bill may apply nowhere, or it could apply everywhere, or somewhere in-between.

Hon. Pierre Poilievre: But we know that it will create a floor that the provinces will not be able to go under. They will have to impose a $50 a tonne tax, and that tax will have to stay in place as long as this bill exists. So how much would it reduce greenhouse gases by 2030?

Mr. John Moffet: From that perspective, that this bill either directly reduces or has the indirect impact of causing a province to develop or maintain its own system, then the estimate remains 80 to 90 megatonnes, and that's no—

Hon. Pierre Poilievre: It will be 80 to 90.

Mr. John Moffet: That's what a $50 price—

Hon. Pierre Poilievre: Okay.

The Chair: That's by 2022.

Hon. Pierre Poilievre: No, no. He said "remains".

Mr. John Moffet: If that price remains, then that will be the approximate contribution. That is a very approximate contribution as we go further out into time because, as we go further out into time—again, coming back to the difficulty of predicting the future—technologies may change, individual household behaviours may change. If people improve energy efficiency, switch fuels—

Hon. Pierre Poilievre: No, we're good.

I think we're getting closer now.

Mr. John Moffet: Okay.

Hon. Pierre Poilievre: We have a 221-megatonne reduction required by 2030, of which this new carbon price, you say, will only give us 90 megatonnes in reduced greenhouse gases, so we have a gap of 130 megatonnes in the plan. The government says that it's going to achieve its Paris targets, but you've just laid out mathematically for us how this bill does not do that. It falls short. In fact, it doesn't even come halfway the distance we need to go. So, where do you find the other 131 megatonnes of reductions?

Mr. John Moffet: The government recently issued its first report on the implementation of the pan-Canadian framework, and that report listed a number of additional measures that federal, provincial, and territorial governments are taking. Some of those are summarized very briefly in the impact report that we released last week—for example, the commitment of the government to develop a clean fuel standard that will reduce the carbon intensity of fuel in Canada with the stated goal of achieving 30 megatonnes of reductions by 2030.

We recently amended the coal-fired electricity generation regulations that were introduced by the previous government. We recently amended those to accelerate the phase-out of coal-fired electricity generation, and we projected that those would deliver about 16 megatonnes of reductions by 2030.

We recently passed methane regulations, which are projected to reduce emissions by 20 to 21 megatonnes, and there are other regulations that are in development or have been developed. Then there are also expected reductions from the financial contributions to support energy efficiency, energy switching, and improved grid connections—for example, to enable some of the eastern provinces to have greater reliance on the hydroelectricity that's being generated in Labrador.

So, there is a suite of things that are being undertaken. Some are fairly straightforward to quantify their impact, and some are projected to have reductions, but they are a little harder to be specific about because they are in the nature of creating incentives for behaviour and creating financial support for changed behaviour.

Again, the goal of this legislation is to change behaviour, reduce emissions—

● (1200)

Hon. Pierre Poilievre: Fair enough.

Mr. John Moffet: —and make a contribution, but not be the sole contributor to attaining the target.

Hon. Pierre Poilievre: Presuming they all happen and they all reduce emissions as much as you say they will, the measures that you've just mentioned get us 156 megatonnes. You say that we need 221 megatonnes. Where do the remaining almost, let's say, over 60 megatonnes come from?

Mr. John Moffet: The details of the plan and the breakdown of the expected contributions beyond the limited number that I just referred to are described in detail in the most recent publication that we submitted to the United Nations Framework on Climate Change, the Seventh National Communication, which describes in detail all the measures.

I can commit to providing a copy of that report to this committee.

Hon. Pierre Poilievre: That would be helpful.

Do those measures get us to 221 megatonnes?

Mr. John Moffet: Those quantitatively calculated measures get us close, and then a suite of other measures are being undertaken to address the remaining amount, but on which the government has conservatively chosen not to provide specific numerical predictions.

Hon. Pierre Poilievre: Would one of those measures perhaps just be to purchase credits?

Mr. John Moffet: At the moment, that is legally feasible under the United Nations framework convention and under the Paris agreement, but Canada has not made any commitment or any statement about its intention to do that.

The reason for that is twofold. First of all, the precise rules around what kinds of credits will be created and can be sold have not been clarified, and so before we embark on any kind of initiative of that kind, we would want to know that we are actually purchasing real reductions. Second, however, as the pan-Canadian framework made clear, all the governments that endorsed the pan-Canadian framework agreed that the starting point should be domestic reductions, and not purchasing international reductions.

Again, if your question is whether in theory that could happen, absolutely, in theory it could happen.

Hon. Pierre Poilievre: Sorry—what could happen in theory?

Mr. John Moffet: In theory, any government, including the Canadian government, could acquire foreign credits.

Hon. Pierre Poilievre: How would that work? Would it provide money in exchange for credits?

Mr. John Moffet: That's essentially how it would work, but again the precise details have not been worked out in the UN framework convention.

Hon. Pierre Poilievre: Right. Where would the government get the money to purchase those credits?

Mr. John Moffet: I can't speculate. This is not something the government is planning to do. This is not something the government has announced it is doing. I would be completely speculating as to whether the government will do it and how it will do it.

Hon. Pierre Poilievre: The next question is for Finance.

As you know, American businesses are now paying significantly lower taxes than they were even a couple of years ago. Their tax burden is just in percentage now slightly lower than that in most Canadian provinces. In addition to that, American companies are able to write off 100% of capital investments in the year they're made rather than having them amortized over the life of the asset, which gives a real cost of money advantage to our U.S. competitors.

In most American states there is no carbon tax. Therefore this burden will pile on to the competitive disadvantage that already exists.

Does the carbon backstop in this bill foresee the usage of revenues from backstop provinces going towards business tax reductions in the province in question?

● (1205)

Mr. John Moffet: It's straightforward. If the government returns the revenue to provincial governments under the provisions in the act, then the government would not impose any conditions on the use of that money. We already know that is a possible use of revenues because that is, in part, the way British Columbia has used its revenues.

Hon. Pierre Poilievre: What about in provinces where the government has not asked for a backstop and therefore the federal government is responsible for recycling the revenue? Would any of that money be used for personal or corporate tax reductions?

Mr. John Moffet: At this point I can't answer that question, because the government has not articulated whether it will exercise its authority under this legislation to return money to designated persons, and if it does, how it would choose to exercise that authority.

Hon. Pierre Poilievre: Can businesses be considered designated persons under this?

Mr. John Moffet: Yes. A person is a term of art in law, which can refer to a corporation as much as to an individual human being.

Hon. Pierre Poilievre: Does "return" mean a reduction in another tax, or must it mean some sort of cash rebate under this law and in instances where the federal government is administering the backstop directly to persons?

Mr. Pierre Mercille: I think the legislation provides for the return of the revenues. The legislation doesn't provide for amending other statutes.

Hon. Pierre Poilievre: To comply with the obligation to return the revenues to the jurisdiction of origin, could the federal government reduce taxes uniquely in the jurisdiction in question?

Mr. Pierre Mercille: The provision of the legislation says that the Minister of National Revenue, in the case of part 1 of this bill, must pay the amount.

Hon. Pierre Poilievre: Therefore, it can't be done. There's no chance then that there will be corresponding tax reductions?

Mr. John Moffet: There's no chance there will be corresponding federal—

Hon. Pierre Poilievre: No, no, I understand that. That's why I have specifically and repeatedly said that I'm talking about whether the federal backstop kicks in and if it's being administered to persons. I'm not talking about where you're giving the province money. I'm talking about where you're giving to persons.

Mr. John Moffet: Pierre, I think your interpretation is correct.

Hon. Pierre Poilievre: Okay. There's no chance. In essence, it can't be revenue neutral because the only commitment here is that you're going to spend the money, albeit within the province from which it was originally collected, but it's just taxes to spend.

Revenue neutral would imply that the government would, through one tax cut, reduce its revenue enough to neutralize the increase in revenue it obtained from another tax increase.

Mr. John Moffet: I don't think I can comment on that, other than to repeat the government's position that it will not keep any of the revenue. The purpose of the legislation is not to raise revenue in order to spend revenue, but the revenue is raised as an artifact of the way the pricing system works.

Hon. Pierre Poilievre: Right. Okay. That's good.

The Chair: I was just going to say that I hope that's good.

Mr. Kmiec, we do have witnesses here for several other parts and divisions that we would also like to get to. Our schedule is getting very tight.

Go ahead, Mr. Kmiec.

Mr. Tom Kmiec: Maybe we'll just change the pace. I have questions about sections 94 and 96 in division 6, subdivision B, and section 141 in subdivision K. It's about carbon tax investigations and amounts paid. Can you help me understand how this would work? Is it similar to other portions of legislation, like the Income Tax Act that's overseen by the CRA. Under section 94, it talks here about appointing: "The persons that are necessary to administer and enforce this part are to be appointed, employed or engaged in the manner authorized by law."

Is that pretty similar to other legislation?

● (1210)

Mr. Pierre Mercille: Yes, it is. Essentially, these powers allow the minister, in a very simple way—it's not the minister herself who's going to do all the tasks—to delegate to officers, who are the people who work at the Canada Revenue Agency.

Mr. Tom Kmiec: Are these just like delegation of authority sections about administering?

Mr. Pierre Mercille: Yes.

Mr. Tom Kmiec: Would there be a scenario under which an outside organization would have delegated authority to do an investigation? Would that happen?

Mr. Pierre Mercille: I'm not aware of any such situation.

Mr. Tom Kmiec: In the inspection section—section 141, subdivision K—it talks about inspecting, audits, records, and processes. That's pretty standard form. That's found in other income tax acts. Is it modelled after it? Is it the same thing?

Mr. Pierre Mercille: Yes. It's modelled on other statutes that are administered by the CRA.

Mr. Tom Kmiec: Then it says, "may enter any place in which the authorized person". These are sections that would just say that, if for some reason I file...as a company. I would assume that the person involved would be a business and it has carbon taxes that it pays. It gets a rebate or maybe it doesn't get a rebate, so there's a disagreement at some point. Then the CRA would be able to go in and not just check the corporate income tax files, but would check all of the carbon tax files that you're keeping as well, hopefully.

Mr. Pierre Mercille: It's the general power that CRA has to audit business. As I said, this is similar to other powers the CRA has when it administers other statutes.

The way it's done in practice, CRA doesn't usually just show up at the business and ask questions. Usually, CRA staff contact the person. They may just request information over the phone, or they may ask to visit, to have a better idea of the business, but these are standard practices used by CRA.

Mr. Tom Kmiec: They have great customer service, I'm sure.

Under clause 96 on the rights of the person investigated, is that pretty standard as well? It talks about any person whose affairs are investigated in the course of an inquiry, and says that the minister may order the removal of a person if the minister believes that person's presence or that of their counsel "would be prejudicial to the effective conduct of the inquiry". Is that pretty standard, too? The CRA has that ability to administer...?

Mr. Pierre Mercille: Yes, all the provisions that you see in here that are administrative in nature, or related to enforcement by the CRA, are modelled on other statutes administered by the CRA.

Mr. Tom Kmiec: Does that include clause 132 under offences and punishment, as well? It says failure to file as required, or to comply with an obligation or order, renders you liable to a $2,000 to $40,000 fine or up to a year in jail, or both. You spend a year in jail if you don't comply with the CRA's audit.

Mr. Pierre Mercille: This is modelled on other statutes administered by the CRA.

Mr. Tom Kmiec: Okay, can I then move on to clause 166? It's a pretty broad section. Clause 166 in division 8, on the regulations, again has a lot of catch-all terms. I know some members like the *Canada Gazette*, but there are a lot more regulations than there used to be.

It goes into the details here of all the things that haven't been determined yet, so "distinguishing among any class of persons, provinces, areas, facilities, property, activities, fuels, substances, materials or things; and...generally to carry out the purposes and provisions of this Part."

This is already a 200-page piece of legislation, and then in the regulations, basically you threw in everything else you might have missed. Is that correct?

Mr. Pierre Mercille: Essentially, the way part 1 of this bill has been designed, we have tried to put in place all the rules that are necessary to the proper functioning of the fuel charge. As I mentioned last time I was here, this is a new charge, a new area, and something the government doesn't have a lot of experience with.

These regulatory powers are there basically to allow the government to be in a position to address issues that may arise. When people start complying and the CRA starts administering this, they may discover certain situations where the result may not be what was intended in terms of policy. These regulatory powers allow the Governor in Council to make some amendments to fix those particular situations.

At this point, we don't envisage any of those particular situations needing to be fixed by those powers, but the nature of the instrument is such that when people start to comply, they may have questions and issues may be raised. A technical adjustment to the legislation may be required.

● (1215)

Mr. Tom Kmiec: Once you see how it behaves, how the provinces that have a carbon tax create their programs, and what kind of rebate programs they want.... Is that what you mean?

Mr. Pierre Mercille: No. If a province has its own system in place, this will not apply.

Let's say a province doesn't have anything, and the government has made the decision to impose the fuel charge in that jurisdiction. The businesses in the jurisdiction will start complying with the rules, and they may raise issues that we did not think about when we developed this. It's difficult to predict the future, and we may not have thought about everything. There might be a new transaction that starts appearing.

Mr. Tom Kmiec: Could I ask you about businesses that cross provincial boundaries, like a bank or a railway, and the compliance of their documentation? Obviously, for railways, you have a lot of things in here already to try to cover them off.

Regarding the paperwork involved in electronic filing, some businesses might have activities that move from a province with a cap-and-trade system to a province with nothing, to a province with a carbon tax with no rebate directly to companies, to another province—e.g. B.C.—that tried to do a revenue-neutral thing and it didn't quite work out for them. In this model of investigations and compliance, how much latitude would be given to these companies that cross different boundaries? They are not just large ones. There are some medium-sized trucking companies, for instance, that may work in all western provinces.

How much latitude would be given to them? Is there anything I might have missed in this legislation that gives them a few years to figure out their compliance and how they would file? How would you demonstrate this, in the case of an assessment or audit?

Mr. Pierre Mercille: This is legislation that the government wants to put in place. The CRA is already preparing the documentation to help the people who will have to comply with those rules. The goal is that when the government decides when they want to apply the carbon pricing, it will apply as of that time. With every new legislation, usually CRA is more tolerant with the people who make honest mistakes at the beginning. There are powers to waive interest and penalties in some cases where CRA may see that it's not in the best interest to—

Mr. Tom Kmiec: Are those powers in here as well?

Mr. Pierre Mercille: Yes, they are.

Mr. Tom Kmiec: To waive as necessary....

Mr. Pierre Mercille: Yes. It's like under other statutes administered by the CRA.

The Chair: Mr. Coulombe wants in.

[*Translation*]

Mr. Gervais Coulombe: I would like to add something, but I will be brief.

This policy was put into a document for public consultation in May. Consultations and submissions have been made by many industries in Canada, including rail carriers and transportation companies operating in a pan-Canadian environment. The special rules that have been put in place for air carriers and rail carriers, in particular, reflect the consultations and feedback that we have received from those companies.

Subsequently, the proposed legislation was also published for consultation in January. Mr. Mercille mentioned the work that will be done by the Canada Revenue Agency when it comes to public information.

In terms of the major industrial groups that will have to operate either with the federal backstop or with existing legislation, some initial work has already been done. The legislation in its entirety is not a surprise to those groups, although, like us, they are not aware of the actual application or non-application of the proposed legislative framework in a province or territory.

● (1220)

Mr. Tom Kmiec: The consultation started in May 2017, correct?

Mr. Gervais Coulombe: Yes.

Mr. Tom Kmiec: When did it end?

Mr. Gervais Coulombe: I think we completed the first round of consultations at the end of June. Subsequently, there were further consultations on the legislation for about a month. That consultation took place in early 2018. There were two rounds of consultations.

Mr. Tom Kmiec: Could the committee have the list of companies that were consulted?

Mr. Gervais Coulombe: I am not sure the list was made public.

I'm going to turn to my colleague, John Moffet.

[*English*]

Mr. John Moffet: We can certainly give you a list of all of the industry associations and companies and other interested parties that have participated in these consultations. They've been very extensive, so it will be a long list.

Mr. Gervais Coulombe: Okay.

The Chair: Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair.

Thanks to the officials for being here today.

In British Columbia, due to some skepticism from some quarters —I won't say where it's from, Mr. Chair—the premier of the day, when they installed the carbon tax in British Columbia, said that they were going to have the Auditor General review every year and confirm—I believe it's done through the budget document every year —that 100% of the revenues got recycled.

Would the Auditor General of Canada have a similar review of the monies that come in and come out due to this backstop regime?

Mr. John Moffet: There is no such provision in this legislation.

Mr. Dan Albas: I would imagine that if the Auditor General wanted to review any portion, there could be an analysis done.

Mr. John Moffet: Absolutely, yes.

Mr. Dan Albas: Thank you.

Following through on what Mr. Poilievre had mentioned earlier regarding the possible purchase by a future government of carbon credits internationally, that obviously is not in any of the long-term projections of the fiscal framework at this time. I'm asking the Department of Finance officials.

[*Translation*]

Mr. Gervais Coulombe: It is especially unrelated to the purpose of the bill that we are currently studying. Those are hypothetical questions that have no connection to part 5.

[*English*]

Mr. Dan Albas: Such a move, I imagine, would be—

[*Translation*]

Mr. Gervais Coulombe: So we are not able to answer that question.

[*English*]

Mr. Dan Albas: I'll move to something that we can speak to more.

I want to briefly mention equivalency, because when the premiers met in Vancouver with the Prime Minister to talk about a Pan-Canadian agreement in this area, there were some reservations. For example, the former premier, Christy Clark, had mentioned the issue of equivalency and that the carbon tax in British Columbia was much different from the cap-and-trade system was rolled out by both Ontario and Quebec, where some emitters could be exempted completely. That's not how it works.

In fact, Mr. Chair, you'd be surprised that the province of British Columbia does include farmers, and there's no exemption for them. While this federal backstop doesn't include farmers, I hope that earns your condemnation of British Columbians.

The Chair: I know.

Mr. Dan Albas: With regard to this, when there's equivalency, has there been any modelling done to find out the equivalency of this federal backstop to other jurisdictions? Is it more like British Columbia? Or, is this a stand-alone regime in which you haven't compared apples with apples, so to speak?

The Chair: Mr. Moffet, you wanted to get in on this earlier.

● (1225)

Mr. John Moffet: Yes. I would respectfully correct that statement. British Columbia's carbon tax explicitly does not apply to coloured fuel used on farms. It does not apply to gasoline and diesel. It's virtually the identical exemption we've incorporated into this legislation.

However, that wasn't the main point of your question.

The federal carbon pricing system that's established by this legislation is most similar to the carbon pricing system recently implemented in Alberta. It's obviously different from both the cap-and-trade system in Quebec and Ontario, and the carbon tax in British Columbia.

The point of the document entitled "Pan-Canadian Approach to Pricing Carbon Pollution", which is what we refer to as the standard or benchmark, is to establish some broadly comparable criteria that can be applied across all three types of carbon pricing systems, recognizing that direct comparability, or any kind of a legal equivalency test, would not be possible, because the systems work fundamentally differently.

British Columbia's system works by explicitly imposing a price, and then the market responds, achieving whatever reductions that flow from the behaviour changes resulting from the price. The cap-and-trade system imposes an absolute limit on emissions, and then a price emerges in the market as a result of the scarcity of the permits that correspond to the limited cap. The Alberta and federal systems are known as hybrids, because they impose an explicit price on fuel, but they have a trading system for large industry.

What we did in the benchmark, or standard document, was to establish some criteria that would ensure that any system that's designed along one of those three lines would be broadly comparable, but we would not be able to make a claim that the carbon price in both systems would be the same. We know they're not the same in Ontario and Quebec versus that in British Columbia, nor did we require that any given province achieve a given level of emission reductions.

The starting point, then, was not an allocation of emission reductions or reduction burden. The starting point was to have a broadly comparable set of systems in place, respecting the flexibility of jurisdictions to design their own.

One of the core criteria is the scope of application. Regardless of the system, whether it's an explicit price or a cap and trade, the federal standard stipulates that the system should apply to substantively similar sources of emissions similar to the British Columbia tax. The reason for that is that the B.C. system was the first to set the foundation for carbon pricing in Canada.

In our estimation, that system applies to virtually all emissions that can be routinely measured, with a few exceptions, namely, gasoline and diesel used on farms, and some inter-jurisdictional marine and aviation fuels.

Mr. Dan Albas: On aviation, for example, British Columbia doesn't have a carbon tax on jet fuel, because it is worried that it would distort and move business to other parts of the country or internationally.

I'll just lump these next questions together out of expediency, because I don't want to take too much time. In the case of a province not charging or taxing jet fuel, this backstop does for travel within that province or territory. Manitoba is charging a lower carbon price. New Brunswick is apparently proposing to rename existing gas taxes, and call them the carbon tax.

How do you then have some sense of equivalency? Are you going to have it in some provinces like Manitoba? If it doesn't raise the price, will there be two prices, one federal and one provincial, or is that yet to be mapped out and is not contemplated by this legislation?

● (1230)

Mr. John Moffet: The basic question is, what happens when provincial systems diverge from the standard? Let's start with this year. This year, provinces will submit a description of their existing or proposed systems by September, and then the government will determine this fall whether those systems align with the benchmark. If they do, great. If they don't, either in whole or in part, then this legislation will allow the government to impose part or all of this system in that jurisdiction.

Mr. Dan Albas: In British Columbia we'd have a federal carbon jet fuel tax for intraprovincial travel. In Manitoba, if they don't raise it past $25 per tonne, you would have a federal one on top of that.

Mr. John Moffet: The answer on aviation is no, because the starting point for the benchmark is British Columbia's system. Although the federal pricing system prices intraprovincially, we have said in our standard that it's good enough for a province to match the scope of the British Columbia system.

Mr. Dan Albas: Mr. McLeod's territory doesn't come up with its own price on carbon, and the federal backstop is applied to the Northwest Territories. His constituents will be paying an intraterritorial jet fuel cost, while people in British Columbia will not. Is that correct?

Mr. John Moffet: The territories are under a different situation. In the pan-Canadian framework, the federal government made an explicit commitment to "develop solutions" with the territories, recognizing their unique circumstances. The Prime Minister, Minister Morneau, and Minister McKenna each had meetings with the three premiers of the territories last week and reaffirmed the commitment to develop solutions and to address, in particular, the issue of aviation, which all three premiers raised.

I can't tell you, because no decisions have been made about exactly what that solution will be—

Mr. Dan Albas: This federal backstop, though, implements the regime as originally proposed. Is that correct? That meeting has not changed the legislation. It's dependent on whether or not future legislation is changed, or if those territories come up with their own version of a cap and trade or a carbon tax.

Mr. John Moffet: The precise fuels to which this legislation applies will be provided for in the order that lists the jurisdiction.

Mr. Dan Albas: That is the scheduling by Governor in Council.

Mr. John Moffet: I think your basic suggestion was that if this bill is passed, the federal government would have no choice but to apply a price on intraprovincial and intraterritorial flights in the territories. The answer is no, because there would still be discretion to address that issue via the scheduling process.

Mr. Dan Albas: This doesn't create full equivalence. There is some room to move for the province or territory or federal government. It's not an absolute. Is that correct?

Mr. John Moffet: This legislation imposes one system. This system is not identical to every other provincial system. That's one point.

The second point is that the standard, which is outside of this legislation, also does not require identical systems with identical outcomes or identical price impacts.

Mr. Dan Albas: It sounds like a free-for-all.

Mr. John Moffet: I would refer you to the document we issued, the "Pan-Canadian Approach to Pricing Carbon Pollution", which articulates a pretty clear set of criteria. We followed up that document with two further guidance documents, which are public and on the website. I can provide those to the committee. There are now three very detailed documents that provide criteria that attempt to provide jurisdictions with the flexibility to design their own system, while meeting some common, basic criteria.

The fourth thing we've done is that the deputy minister of Environment and Climate Change wrote a letter last week to each of his colleagues specifying the kind of information that we want to see from provinces in their description of their system, to enable us to determine whether their systems are aligned with that federal standard.

● (1235)

Mr. Dan Albas: Well, the office of the environmental commissioner had asked for information from provinces like Quebec, so she could evaluate whether they are making their so-called goals. They refused to co-operate. They didn't. I would hope that kind of information would be part of it and could be verified by someone like the environment commissioner.

The Chair: Are we ready to move past this division? We're not.

Before we go to Mr. Kmiec, I think it's important to put some facts on the table regarding the systems in the United States that we discussed earlier. The Ontario and Quebec systems are based on cap and trade, which has been in place in California for a long time. I do think it's interesting that yesterday it became, I believe, the fifth-largest economy with a cap-and-trade system in place. There is a mandatory cap-and-trade program in Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, Rhode Island, and Vermont.

There's an impression being left that this is just us. There's a lot of stuff happening at state level in the United States—maybe not at the federal level. I just think it's important for us all to realize that it is happening in the United States, which is our biggest competitor and our closest neighbour, and the fact that California, yesterday, just became the world's fifth-largest economy, I think is important to note.

Mr. Kmiec.

Mr. Tom Kmiec: Thank you, Mr. Chair.

I want to turn to clause 195, the offset credit system. There are about 200 pages in this omnibus piece of legislation that deals with the budget, but then there's this offset credits system that's created in a very short little clause, 195. What's imagined by this? What is this for? Whom does it seem to cover? It gives the minister the ability to set credit price, and it provides for some user fees. What is this supposed to cover?

Mr. John Moffet: This provision provides the authority to create a federal offset system. It doesn't require the creation of a federal offset system. The government has announced that at the moment it has no plans to create a federal offset system. Nonetheless the legislation provides it with the authority to do so.

What is an offset system? Well, first of all, why do we need offsets? We need offsets because the output-based pricing system established under this bill, for large emitters, provides for three forms of compliance.

If you emit more than your emissions intensity standard allows on an annual basis, then you owe compensation for the amount by which you were over your standard. You can provide that compensation in one of three ways.

You can pay a fixed amount per tonne, and that amount would correspond to the fuel charge. Second, you can submit a surplus credit. For example, I may emit more than my standard, and my colleague Mr. Giguère might emit less than his standard. If he emits less than his standard, the government has to issue him surplus credits for the amount by which he was below his standard. Let's say he's 10 below. He has 10 credits that he can sell. I can buy his credits, and I can submit those surplus credits for compliance.

The third way I can comply is by acquiring offsets, so that's why we need offsets. What is an offset? An offset is a term that was developed—well, first came into prominence under the UN system over 10 years ago. The idea is that there are certain activities that are regulated, so you have to achieve certain emission reductions. There are other activities that you only undertake because the government gives you money. I get some money, so I reduce my emissions. There are other kinds of emission reduction activities that you might undertake if you were able to get some money for it. In this circumstance you're not getting money from the government. You can get money from an offset. If I can demonstrate that I've taken action primarily motivated by the opportunity to sell an offset credit —so I wasn't legally obliged to do it, but I reduced my emissions— and I can demonstrate that I've done that in a way that actually reduced emissions and I have third party verification to show that I reduced my emissions by a certain amount, by one tonne each year, I'll get one credit per tonne, and I'll be able to sell those emissions.

Why do we have this system? It creates a market incentive for actors who are not subject to the regulation, who are not legally obliged to reduce their emissions, to find ways to reduce their emissions. The incentive is that they can receive compensation for doing so.

● (1240)

Mr. Tom Kmiec: But at the beginning of your statement you said that the federal government is not pursuing this, so why do you want the authority?

Mr. John Moffet: To be clear, we are not establishing our own system. The provinces of Ontario, Quebec, British Columbia, and Alberta already have offset systems. The Province of Manitoba has announced that it will be establishing an offset system. The provinces of Nova Scotia and New Brunswick have announced they are planning to develop their own offset systems.

The way we can operate under this legislation is that we can recognize offset credits generated under the federal and provincial systems. At the moment, significant offsets are being created and recognized under provincial systems. This legislation gives us the authority to recognize those offsets and to say, for example, that this practice, as recognized by the Government of Alberta pursuant to their offset protocol ABC, is a recognized offset credit for the purpose of compliance with this legislation. Then my company can acquire one of those credits and submit it to the federal government for the purpose of compliance with this legislation.

Mr. Tom Kmiec: But this allows the federal minister to issue offset credits.

Mr. John Moffet: Yes.

Mr. Tom Kmiec: If the provinces are doing this already, why would you need authority to do it yourselves?

Mr. John Moffet: This falls into the category of many of the provisions that Mr. Mercille has described where there may be a desire to do this in the future. Indeed, some provinces and some industries are asking us to do this.

As I explained, many provinces already have their offset systems. Some are planning to develop them. Some are not. Entities in those other provinces may at some point ask the federal government to develop a federal system.

This is just authority to create an offset system if at some point in the future it's decided that would be useful.

Mr. Tom Kmiec: Right, but right now it's not going to be done by the federal government so that goes back to my question of why are you asking for authority to be able to do this when you are going to return later with a more fleshed-out piece of legislation that would create the offset. I doubt the provinces created their offset system through five lines of regulation. This offset system is all by regulation.

Mr. John Moffet: The Province of Nova Scotia's is less than five lines.

Mr. Tom Kmiec: Less than five lines for the entire offset?

Mr. John Moffet: It's typically done by regulation.

Mr. Tom Kmiec: Let's not repeat their mistakes.

The Chair: I'm going to interrupt you for a second, Mr. Kmiec. I'm starting to worry about the time.

We're going to have to make some decisions. We will take a moment here. I know there are a lot of officials here for other parts of the bill. That's not a criticism of committee members; you have the right to exhaust each section.

This afternoon we are currently scheduled to meet from 3:30 to 5:30 when there are general witnesses. Tomorrow, from 3:30 to 5:30 —and there are votes and a number of things tomorrow evening, I gather—we have further witnesses, including some of the people who are now at the back of the room. We had suggested cancelling the Thursday morning meeting. We don't absolutely have to do this. I want to go to the funeral of Gord Brown. We have then transferred that meeting to the afternoon, from 3:30 to 5:30, which would be the officials on the remaining parts.

The deadline for proposed amendments is Tuesday, May 15, because on May 22 we go to clause-by-clause.

How do we get through this? Do you want to extend the meeting tonight? After 5:30 there are votes. We could return as a committee and meet until, I don't care, midnight. It doesn't matter to me.

People really need to get through the various divisions in fairness to committee members so they can get the proposed amendments in place should they wish to do so.

I'm asking the committee how we should manage this and not affect our witnesses' time too much, having them sitting around in the room. I expect they are all learning something from this discussion, as I am, because I think the discussion has been very good.

Mr. Fergus.

● (1245)

Mr. Greg Fergus (Hull—Aylmer, Lib.): Mr. Chair, without having consulted my colleagues, I would go along with your proposal. I'm a local MP, but I know that it would be best for us to meet as long as we can today because we have members here from the west or the north. We have an exceptional situation on Thursday morning, and I know that the folks from the west or the north can't be here too late on Thursday evening, and we have a hard stop for the 15th, so I'm favourably inclined to your suggestion.

The Chair: What do you think? Go tonight for a while?

Mr. Dusseault.

Mr. Pierre-Luc Dusseault: I think we can go until 1:30 p.m.

The Chair: I'm okay with that. We can till 1:30 p.m. I know people have things, and there's question period, but are people okay till 1:30 p.m. today?

Sorry, Dan, I can't hear you.

Mr. Dan Albas: Today, we're doing it today?

The Chair: Yes, we'll go till 1:30 p.m. now, and then we can make a decision this afternoon if we want to extend it into the evening.

Okay, then, we'll continue. We have agreement to go till 1:30 p.m., for now.

Mr. Kmiec, the floor is yours.

Mr. Tom Kmiec: On the offset credit system, does it allow the minister to also set the price or the value of the offset credit?

Mr. John Moffet: My apologies, but—

Mr. Tom Kmiec: No, that's okay.

Mr. John Moffet: —I'm going to cancel a meeting.

The Chair: Sorry, Mr. Moffet.

Mr. John Moffet: No, the offsets won't be priced by government. The price of an offset will be set in the marketplace. Facing an obligation to reduce my emissions, hypothetically speaking, I have a choice: I know I can pay $20 a tonne, or I can buy surplus credit from the business down the road. How much is he willing to sell it for? Maybe it's $18 a tonne. Or I can buy an offset. I'll probably be willing to offer $17.90 for an offset. You're an unregulated party. You have the potential to develop an offset. You have to decide if can you reduce a tonne of emissions for $17.90. If you can, then you probably will, and you'll sell your credit to me. If you can't, you won't, and I won't have an offset to buy.

It will be set by the market, not by government. Provincial governments already set criteria for what a good offset has to be. So we know there are actual reductions, but then they are offered up into the marketplace, and the price is set by the market. It's a typical supply-and-demand arrangement.

● (1250)

Mr. Tom Kmiec: Why would I pay more than $20? If it's a true market system, there is a willing seller and a willing buyer. But the federal government has set a price, so why would I pay more than $20? That means everybody selling an offset credit in this proposed system would have to underbid the federal government's price, because that would be the only way you could get someone to buy it. Am I wrong?

Mr. John Moffet: That seems like straightforward economics, yes.

Mr. Tom Kmiec: So there's basically a cap on the price, because no willing party would pay more than what you would have in a regular system. Would you be able to move it between provinces, this federal offset?

Mr. John Moffet: Yes.

Mr. Tom Kmiec: It says, "respecting the registration and monitoring of the projects", but it doesn't have information about the monitoring of who has the credits.

Mr. John Moffet: I'll ask my colleague to point to the provision, but there's a provision in the law that requires us to establish a registry, and then there's regulatory authority that gives us the authority to provide some rules around the registry. The point of the registry is to track all of the credits so we know the offset credits and surplus credits. Everybody who's in the output-based pricing system will have to register, and if you want to be selling offsets, you'll also have to register. So we and the public will be able to track the sales.

Mr. Tom Kmiec: This will be a public registry.

Mr. John Moffet: Yes.

Mr. Tom Kmiec: Would you be able to see—

Mr. John Moffet: Yes.

Mr. Tom Kmiec: —that company X sold to company Y *x* amount of credits at such and such a price?

Mr. John Moffet: Yes.

Mr. Tom Kmiec: And that will all be publicly disclosed?

Mr. John Moffet: Yes.

Mr. Tom Kmiec: In that type of system, it would be pretty simple for me to underbid another competitor company—telling them I have cheaper credits they can get from me. But there's a price ceiling set by the government. You can't exceed a certain price because nobody will buy. Is that correct?

Mr. John Moffet: It's an effective price ceiling: there's nothing legal about it. But yes.

Mr. Tom Kmiec: Right. Okay. That's how it would work.

In this offset credit system, what if there's a disagreement between the province and the federal government over which facility is covered? Could the federal government cover the provincial...? Could you double up the offset credits? Could a province offer up offset credits for a particular facility? Could the federal government then cover it as well and say "you get these extra federal credits"? Or is that not possible?

Mr. John Moffet: I guess hypothetically that's possible.

We are going to be issuing a paper, a document, describing the proposed approach to offsets under this system in the very near future. One of the core things that we are saying in that paper is that the criteria we're going to rely on for determining offset credits are the criteria that have been worked on over the past year and a half by the Canadian Council of Ministers of the Environment in a project precisely to come to an agreement on what the core features of a good offset are.

There are a number of features, but at the heart of an offset are two concepts. One is additionality, so you're not getting a credit for something that you would have done anyway, or that you had to do. Second, there is no double counting, and that's a concept that runs through any offset system in the world.

The Chair: Okay?

Mr. Tom Kmiec: On that section, I'm done, but I have one last one.

The Chair: One last question? Okay.

Mr. Tom Kmiec: It's on proposed section 270, which is the "Report to Parliament".

This one doesn't seem to have a lot of detail. In your experience, are there other acts that produce a larger volume of information, or where the report to Parliament is more comprehensive?

Mr. John Moffet: I can only speak for the environmental statues, a number of which require annual reports. I was responsible for all of them for about a decade. They all have brief legislative obligations to report on the operation of the legislation.

The annual reports, the reports that we have provided with respect to environmental legislation, have ranged from two or three pages, in the case of the International River Improvements Act, where nothing happens on an annual basis, typically, or maybe one decision, to a 200-page plus report under the Canadian Environmental Protection Act, where we describe all of the science research, all the risk assessments, and all the risk management decisions that are made under the act during the course of the year.

The general question is, I guess, is this a typical provision? From my limited knowledge of provisions in environmental statues, this is a very typical provision that provides authority for a detailed annual report.

● (1255)

Mr. Tom Kmiec: Does anybody else know of other acts that have more detailed information on what's reported back?

In a previous exchange with my colleague from Carleton, there was discussion about the GHG emission reductions that this particular piece of the act is trying to manage in that reduction program in the different provinces, in imposing a carbon tax or price on each province. The flip side is the perceived GHG reductions. That information would be collected by province, I would assume, and the federal government would have information year by year on the reductions achieved. Am I correct?

Mr. John Moffet: The federal government has legislative authority under another act, which it currently exercises to collect emission reduction information from industry and other kinds of institutions. It compiles that information in a national annual report. There's no authority provided in this act for the federal government to compel provinces to report on the GHG reduction impacts of their own pricing systems—

Mr. Tom Kmiec: The federal government could report it, because it would know, wouldn't it? That's how it would see equivalence.

Mr. John Moffet: Indeed, under the current governance arrangement under the pan-Canadian framework, there is an agreement to do collective reporting. We just issued the first annual report of the implementation of the pan-Canadian framework. That was a report that was endorsed by all jurisdictions in Canada. It included contributions from all jurisdictions.

Mr. Tom Kmiec: How hard would it be to include that type of information in an annual report to Parliament that's under proposed section 270? Would it be difficult to do?

Mr. John Moffet: If the federal government receives that information, it can report it, and indeed has made the commitment to do so under the pan-Canadian framework.

The legal challenge we would have is that if Parliament required the federal government to report on the outcome of a provincial system, then we would also have to provide the authority to require the province to report. As I said, provinces have agreed, but agreements can change.

I'm on very thin legal ice if we start to get into whether the federal government has the authority to require provinces to report, so there are a bunch of legal reasons why that kind of requirement is not in this act.

Mr. Tom Kmiec: The Saskatchewan government is taking the federal government to court over the imposition of a carbon tax. There's at least one other province that may also do so in the coming year—next year, actually—so the whole underpinning of the legislation I think is on thin ground.

I'm just talking about proposed section 270 here. In an annual report, how difficult would it be for the government to report total GHG per-tonne emission reductions achieved by a listed province, or any other system that's designed—cap and trade, or provinces that don't have anything?

How hard would that be for the government to say that this is an estimate of the total reduction? You did it last week, on Monday. There was a report put out with very generic global numbers. Obviously, it's being modelled and prepared in some way. How hard would it be to provide that information once a year to Parliament?

[*Translation*]

Mr. Philippe Giguère: I think that Mr. Moffet answered your question on the issue.

If we want to include a requirement in the act to that effect, we must ensure that this information can be requested from the provinces. However, legally, it is not feasible at this time.

Mr. Tom Kmiec: In the case of provinces that do not have their own system but are subject to the federal system, would it be possible to find out the total number of tonnes of emissions that the carbon tax has supposedly reduced?

● (1300)

Mr. Philippe Giguère: In the case of a province where the federal system applies, of course.

Mr. Tom Kmiec: It would not be difficult to get the numbers for each year so that Parliament can see the success—

Mr. Philippe Giguère: The challenge is another issue. Legally, it can be done, but in terms of the challenge, I'm in the hands of my colleagues from Environment Canada.

Your question is about section 270, and yes, that section would do that.

[*English*]

Mr. Tom Kmiec: Okay.

The Chair: That is it, I believe. I hope.

A very big thank you to officials for coming here to answer questions on part 5. I know it's taken quite a bit of time, but I thank you for your open responses and all of your hard work in this regard.

Thank you very much.

We'll turn to part 6, division 1, with the Financial Administration Act first.

John, I believe there are a couple of reports that you're going to send us.

Mr. John Moffet: They will follow.

The Chair: Thank you very much.

Welcome, folks. We are to division 1 of part 6 the Financial Administration Act. From the Treasury Board, we have Ms. Sonya Read, senior director, digital policy; and from the financial sector policy branch of the Department of Finance, we have Marie-Josée Lambert, director, crown corporation and currency. Welcome, and I believe you have a quick opening statement. Go ahead.

[*Translation*]

Ms. Sonya Read (Senior Director, Digital Policy, Treasury Board Secretariat): The proposal seeks to amend the Financial Administration Act to formalize the role of the Chief Information Officer of Canada.

[*English*]

Recognizing the fundamental importance of information management and information technology to government operations and to ongoing service delivery improvement, the proposal supports strengthened government-wide governance of those areas, much as the establishment of the role of the comptroller general has done for financial management, and the role of the chief human resources officer has done for human resources management.

The amendments establish the role of the chief information officer of Canada as a deputy head within the Treasury Board Secretariat, and provide authority for the Treasury Board to delegate powers and functions to that office. It is expected that these amendments will support improvements to the general management of information technology across the Government of Canada, as well as support the improved delivery of projects that are reliant on information technology for their success.

The Chair: Thank you very much.

Do you have anything to add, Ms. Lambert?

Ms. Marie-Josée Lambert (Director, Crown Corporations and Currency, Financial Sector Policy Branch, Department of Finance): I have a separate item.

The Chair: You're still on division 1, right?

Ms. Marie-Josée Lambert: Yes I am.

[*Translation*]

The proposed legislative amendments are technical in nature and will have no impact on the government's debt or deficit. Only crown corporations will be affected, particularly those that are subject to part X of the Financial Administration Act and that prepare financial statements in compliance with the International Financial Reporting Standards (IFRS).

● (1305)

[*English*]

The proposed legislative amendments will ensure that crowns with no borrowing authority are able to enter into lease agreements to run their day-to-day operations. They will require the Minister of Finance's approval before entering into leases over a certain threshold. Statutory borrowing limits exclude these lease transactions.

Thank you.

The Chair: Okay, we're open to questions.

Mr. Albas?

Mr. Dan Albas: Thank you.

In regard to the last item, Ms. Lambert, could you just let us know what is the minimum proposed term before there has to be disclosure on that?

Ms. Marie-Josée Lambert: There is no minimum term. The threshold is expressed in a percentage of assets, or a dollar threshold, which has yet to be established under Governor in Council.

Mr. Dan Albas: So it's going to be by regulations, through a schedule?

Ms. Marie-Josée Lambert: Yes that's right.

Mr. Dan Albas: Obviously this represents quite a considerable way of doing business, because someone could, theoretically, take a large asset, be bound to that asset over a period of time—perhaps a 20-year lease or longer—without having to attribute it to some sort of payment schedule, like a debt instrument. What is the rationale for this? Is this going to allow the government to make it? To me, there's always a transparency issue and we do know, even from our experience here on Parliament Hill, that there is a difference between government deciding to lease buildings versus owning them. If you could just give me a little more information, I'd appreciate that.

Ms. Marie-Josée Lambert: There are two parts to my answer. The first is that it's very much a technical amendment to respond to new IFRS rules. The IFRS 16 rule that will apply comes into effect in January 2019. We're not changing anything other than allowing crown corporations to continue to enter into capital leases as they were before.

The second part of my answer is that you're absolutely correct. By amending the legislation and implementing IFRS 16, there will be increased transparency to the centre on capital leases entered into by crown corporations that exceed a certain threshold.

Mr. Dan Albas: At least I take some comfort because the international financial reporting standards are well elaborated and thought out.

Again, I just question about that. However, I don't have anything further, Mr. Chair.

The Chair: Are there any further questions on division 1?

Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault: In terms of the position being created, division 1 of part 6 provides that the duration of the appointment is at the discretion of the minister.

Why is the duration not assigned? Why wasn't a limit set for the person appointed as Chief Information Officer?

[*English*]

Ms. Sonya Read: That would align with the appointment process for deputy heads within departments. Effectively, the chief information officer would be appointed as the deputy head within the Treasury Board Secretariat. I don't believe there's usually a timeline associated with those types of appointments into the civil service.

[*Translation*]

Mr. Pierre-Luc Dusseault: Okay.

What need does this position fill?

[*English*]

Ms. Sonya Read: The legislation is formalizing the position in order to provide strong senior leadership within the Government of Canada for the management of information technology and information management. There were a number of reports over the past year that identified having centralized, stronger, central leadership in governance as an important factor in improving information technology management within the Government of Canada. This proposal responds to some of those initiatives and suggestions.

[*Translation*]

Mr. Pierre-Luc Dusseault: Is it related to Canada's action plan on open government or is it not really the same thing?

[*English*]

Ms. Sonya Read: They are two different things. The open government, the policy area within open government, is within the chief information officer branch within the Treasury Board Secretariat, but they are separate things.

[*Translation*]

Mr. Pierre-Luc Dusseault: I presume that it provides leadership in information gathering or more efficient information systems and technologies that can then feed Canada's action plan on open government.

● (1310)

[*English*]

Ms. Sonya Read: Yes, it primarily responds to governance around information technology. However, information management is also within the functions of that. It would support that over the longer term.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you.

[*English*]

The Chair: Okay.

Dan, go ahead.

Mr. Dan Albas: On that point, how does this integrate with the Shared Services Canada model? Do they have any reporting duties to this new chief information officer?

Ms. Sonya Read: No, Shared Services Canada is a separate department. They're responsible within the Government of Canada for certain services related to primarily the infrastructure around technology, including data centres, networks, and end-user technology primarily. The role of the chief information officer would support Shared Services Canada in the prioritization of investments that require Shared Services activity or action on behalf of Shared Services Canada. But it would not be a direct reporting relationship. It would be, I would say, a coordination function and a working-together function.

Mr. Dan Albas: So there will be an alignment between the two roles.

Ms. Sonya Read: Yes, absolutely.

Mr. Dan Albas: Okay.

The Chair: With that, thank you very much.

We turn to division 2, part 6, dealing with the Canada Deposit Insurance Corporation Act.

We have four witnesses, I believe, if they're all here. For the record, Mr. Rossi is a special advisor to the Canada Deposit Insurance Corporation. Ms. Bourdeau is senior advisor, Finance Canada. Mr. Brown is a director, financial stability, Finance Canada; and Mr. Sample is acting director general in the capital markets division.

The floor is yours. I'm not sure who is giving an opening statement but go to it.

Mr. Brown.

They'll get to you, Justin.

Mr. Justin Brown (Director, Financial Stability, Financial Sector Policy Branch, Department of Finance): Good afternoon.

Part 6, division 2 proposes amendments to the Canada Deposit Insurance Corporation Act to modernize and enhance the Canadian deposit insurance framework.

Deposit insurance is an important element of the financial safety net. It contributes to maintaining public confidence in the financial system by protecting depositors' savings in the unlikely event that a deposit-taking institution fails.

The proposed amendments modernize the scope of deposit insurance coverage to better reflect products currently offered in the market. For example, these amendments would remove travellers' cheques as an eligible deposit, as travellers cheques are no longer issued by CDIC member institutions. They would eliminate the five-year-term limit on GICs, as longer-term products are now available, and they would extend coverage to foreign currency deposits, which are widely used by Canadians.

These amendments would also improve the rules for trust deposit accounts by clarifying record-keeping requirements, which would facilitate more timely payouts in the event that a bank fails.

This suite of amendments seeks to modernize and clarify the deposit insurance framework so that it can contribute to meet its objectives of protecting depositors, promoting competition, and supporting financial stability.

Thank you.

The Chair: Mr. Albas.

Mr. Dan Albas: Just quickly, with regard to what's being amended here, I would assume that for foreign currencies that are being held in banks, there would be some sort of language in the bill that is specific to actual currencies, and not cryptocurrencies that are not sovereign-backed.

The Chair: Who wants to take it?

Ms. Bourdeau.

Mr. Dan Albas: It's just for simple currencies, like the euro, etc., right?

Ms. Yuki Bourdeau (Senior Advisor, Financial Sector Policy Branch, Department of Finance): We haven't amended the definition of currency. We've simply removed the requirement that to be eligible, the deposits must be in Canadian currency. The definition of currency has not changed.

Mr. Dan Albas: Okay.

The Chair: Is Bitcoin or cryptocurrency included in our definition of currency?

Ms. Yuki Bourdeau: No, it is not currently.

The Chair: Okay.

Is there anyone else?

● (1315)

Mr. Dan Albas: I have just one point to make, because the gentleman did mention travellers' cheques no longer being accepted. This is something that I think the committee at some point needs to look at, because there are constituents who have purchased those travellers' cheques expecting that they could be redeemed, including by their going back to the institution that issued the cheques to them in the first place, but from which now cannot receive Canadian funds back.

This is an issue that I think we need to take a look at, although it's not directly related to the BIA that's in front of us.

The Chair: Noted. We can talk about that another time, because that is an issue if there are some people who have what they thought was money, but is no longer considered money. That's kind of a problem.

Mr. Dan Albas: Yes.

The Chair: Thank you very much, folks. That was much easier than part 5.

Part 6, division 3 is on the Federal-Provincial Fiscal Arrangements Act.

Mr. Countryman is director general of federal-provincial relations in the Department of Finance, and from Health Canada we have Ms. Mandy, the executive director of the strategic policy branch.

I'm not sure who is leading the discussion.

Mr. Countryman, go ahead.

Mr. Galen Countryman (Director General, Federal-Provincial Relations and Social Policy Branch, Department of Finance): Thank you.

Part 6, division 3 proposes amendments to the Federal-Provincial Fiscal Arrangements Act in two areas. One, it proposes to renew the equalization and territorial formula financing program for the next five years. Second, it proposes to legislate a new reimbursement policy for deductions made from the Canada health transfer with respect to the extra billing and user-charge provisions of the Canada Health Act.

Following consultations with provincial and territorial governments, the government is proposing to renew the equalization and territorial formula financing for another five-year period, beginning April 1, 2019. Technical changes will be made to improve the accuracy and efficiency of the calculation of entitlements. The technical changes themselves will be implemented through regulatory amendments.

The government is also proposing to make transition payments to Yukon and the Northwest Territories over the renewal period to offset the projected negative impacts of the changes in territorial formula financing entitlements.

With respect to the reimbursement policy, this proposal recommends that the Federal-Provincial Fiscal Arrangements Act be amended to permit reimbursement of amounts that were previously deducted, as directed by the Minister of Health, when the provinces or territories can't transfer payment due to violations of the Canada Health Act provisions for extra billing and user fees. This legislative amendment will enable the Minister of Health to direct the reimbursement of such a deduction when a province or territory has taken corrective action to align their public health system with the principles of the Canada Health Act. It creates a fiscal incentive that recognizes jurisdictions that have taken the necessary steps to address issues of non-compliance.

My colleague and I will be pleased to answer any questions.

The Chair: Mr. McLeod, you're first.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair.

Thank you to the presenters here today.

I raised the issue of the borrowing limits with the minister. It's an issue that all three territories, I think, are being challenged by. As we move forward and start to see more investment coming from the federal government to the territorial government, especially in the area of infrastructure, the cost-sharing component of it is really starting to challenge us. We have a borrowing limit of $1.3 billion that has been set, and our deficit is huge. What would it take to have that amount discussed, renegotiated, and a new number put in place?

I see there's been a lot of work done in balancing out some of the agreements, renewing them, and reimbursing them. Has this issue been on the table for discussion?

Mr. Galen Countryman: There's nothing in the BIA concerning the borrowing limit. I appreciate your question. The territorial premiers did meet with Minister Morneau last week, and they raised that issue on the borrowing limit. The message back, and the message I would certainly communicate, is that we would welcome proposals from the officials of the territorial governments to present the rationale for what kind of increase they're looking for, and we would take that into consideration.

● (1320)

Mr. Michael McLeod: Thank you for that response. I realize it's not in the BIA, but I'm really trying to get some clarity on the issue.

Why would Yukon and the Northwest Territories be the only two territories receiving transition payments?

Mr. Galen Countryman: That is because, under the simulations that we ran, we found that only those two provinces would be negatively impacted. Nunavut, actually, would be positively impacted by the changes we're proposing.

Mr. Michael McLeod: I'd like to ask you how the proposed transition payments to both Yukon and the Northwest Territories were calculated.

Mr. Galen Countryman: They were calculated using a rather complex model, but looking at the technical changes that we were making to the territorial formula financing program, we made estimates using 2017-18 payments. If we applied these changes, how would those TFF payments change? We found that for Yukon and Northwest Territories, the payments did fall ever so slightly, so the government has proposed to compensate the territories on that basis for the renewal period.

Mr. Michael McLeod: Is that what triggered or motivated the federal government to renew the equalization program and the funding formula for the territories?

Mr. Galen Countryman: Under the current legislation, the authority to make the payments expires on March 31, 2019, so we have to make a renewal and there's a time limit. It's normal for the program to be renewed every five years.

Mr. Michael McLeod: Could you just maybe give us a little more information on the reimbursement for the health transfer? What was it for, how much, and what period did it cover?

Ms. Gigi Mandy (Executive Director, Canada Health Act Division, Strategic Policy Branch, Department of Health): It's not for any particular reimbursement. Under the Canada Health Act, deductions can be made to a province or territory if they permit extra billing or user charges within their jurisdiction. In that case, the minister of health is obligated to take a mandatory penalty equal to the amount of the extra billing or user charges charged to patients.

Those deductions are currently not reimbursable to a province. This would propose to allow the amount deducted to be reimbursed to a province if a province has taken corrective action and eliminated the cause of the problem that led to the deduction in the first place. It's to provide a positive incentive for provinces to take corrective action.

Mr. Michael McLeod: Will this provide the information that's required, and there are no other issues that will cause delay in the funding?

Ms. Gigi Mandy: There shouldn't be, no.

The Chair: Thank you.

[*Translation*]

Mr. Pierre-Luc Dusseault: My comments are along the same lines.

Normally, we make corrections to a piece of legislation to try to fix a problem. In this case, it is to address the problem of provinces not upholding the principles of the Canada Health Act.

Does the current legislation not say that the government can reduce or keep funds until the province complies with it? Does this really solve a problem or was this already possible previously?

I think that, in English, the legislation states:

[*English*]

"reduced or withheld".

[*Translation*]

What problem are we fixing, if we could already withhold funds?

[*English*]

Ms. Gigi Mandy: You're correct. The government already has the ability to reduce or withhold monies under the Canada health transfer—what we refer to as "deductions" against a province. This is to allow that money to be refunded to the province after it has taken action to eliminate the problem that led to the withholding or reduction in the first place. Right now we have only a negative incentive.

If provinces are not in compliance with the Canada Health Act, money can be withheld or not given to them. This would put a more positive incentive in place, such that if they were subject to withholding of money but then took the corrective action to bring their province back into compliance with the Canada Health Act—eliminating charges to patients, for example—they could get money back, and it could be put back into their health care system.

● (1325)

Mr. Pierre-Luc Dusseault: Okay. I thought "withheld" was already a term that means that you withheld it and then, when you're okay to go, you give it to them.

Ms. Gigi Mandy: That's not currently available under the Canada Health Act. It was during the first three years that the Canada Health Act was in effect from 1984 to 1987. The act was brought in specifically to eliminate patient charges, and provinces were given three years to do so because they recognized they would have to change their legislation and their governance regimes, but if they did so—and all the provinces that were not in compliance did so—they got the money back. Since 1987, we haven't had that ability to refund monies that have been withheld.

Mr. Pierre-Luc Dusseault: How far back in time can you go?

Ms. Gigi Mandy: It just starts with the 2017-18 fiscal year and, as deductions are normally taken in March, the ones that were taken in March of 2018 will be the first ones eligible to be refunded should a province come into conformance.

Mr. Pierre-Luc Dusseault: As we speak, how much does this amount represent, the deductions to provinces?

Ms. Gigi Mandy: In March, there were deductions taken from two provinces totalling $26 million.

Mr. Pierre-Luc Dusseault: Okay, so is there money that will be earmarked by the finance department to make sure that when the province will comply, money will be ready to go and earmarked for that reason?

Mr. Galen Countryman: With this legislation, it will be a statutory provision, so it would automatically be a statutory cost. The economic and fiscal statements will be updated, and if there is a reimbursement, it will happen in that year. It would be under statute, so this would be a statutory authority to make the payment.

Mr. Pierre-Luc Dusseault: Okay.

The Chair: Thank you.

Mr. Kmiec, go ahead.

Mr. Tom Kmiec: I was going to ask questions, but Mr. Dusseault's questioning—

Will these changes materially change the total equalization and transfer payments being given right now to the provinces?

Mr. Galen Countryman: No. The total aggregate amount of equalization is set by formula. The total aggregate amount for all recipient provinces grows by the growth in gross domestic product, so that amount does not change.

Mr. Tom Kmiec: Is the withholding common? You mentioned two provinces. Does it happen every year that provinces have certain amounts withheld? There were withheld amounts in March 2018. Is this an annual thing that happens?

Ms. Gigi Mandy: It all depends on whether there are patient charges in the provinces or not. If there are, yes, then deductions are taken. If there are no patient charges in any of the jurisdictions, then there are no deductions.

Mr. Tom Kmiec: Okay.

The Chair: Simply put, it's to make sure that people abide by the Canada Health Act, right?

Ms. Gigi Mandy: That's right, and as I said, it's to provide a positive incentive in addition to the negative incentive of having the deduction in the first place.

The Chair: Okay. I don't believe there are any further questions.

Just as a note to the committee, we are out of our allocated time for this. On the rest of the divisions, do any committee members anticipate having a lot of discussions on any of them? Is there a major area that's going to take half an hour or more? I ask because we can go into this evening, but if we do, we need to realize that we have about 25 public servants whose lives this evening are already planned, and whom I know will come if we ask them to. But if we don't need to, then we don't need to.

I guess what I'm asking is if we can get through the other 14 or 15 divisions from of 3:30 to 5:30 on Thursday. Do you think we can, or do you think we can't?

Mr. Raj Grewal (Brampton East, Lib.): I think we're good.

The Chair: We can't be absolutely sure. Previously, when we started clause-by-clause, we invited officials for the divisions. Before we start clause-by-clause on Tuesday the 22nd, we can do that as well.

I'm asking do we need to meet into this evening?

● (1330)

Mr. Raj Grewal: Just set it.

The Chair: Okay. I'm going to assume that we can deal with these on Thursday.

Mr. Raj Grewal: That's a good assumption.

The Chair: That will be from 3:30 to 5:30.

Mr. McLeod, go ahead.

Mr. Michael McLeod: Mr. Chair, we are at division 3, and there are 20 divisions.

The Chair: Yes.

Mr. Michael McLeod: So we have a lot.

The Chair: We do, but we go through the divisions fairly fast. We could meet for an hour this evening after votes. I just hate jeopardizing the lives of public servants, but I am sure they will be willing to come.

Mr. Raj Grewal: Why don't we start going at 6:30?

The Chair: What time are votes?

Mr. Raj Grewal: They're at 5:45.

The Chair: At 5:45. Does anybody know how many votes we have?

Mr. Michael McLeod: Two. We're behind schedule now aren't we?

The Chair: Okay. Let's meet tonight at 6:30 to—

Mr. Michael McLeod: Midnight.

The Chair: I'm willing to go to midnight, but I just don't want to jeopardize the lives of public servants. Midnight is after Raj's bedtime, so we'll have to stop before that. So we'll meet from 6:30 until 8. The clerk will see what he can do with some of the divisions. We might not go in order because there may be some people who can't come tonight.

So we'll meet again tonight at 6:30.

Hon. Pierre Poilievre: Will they be serving breakfast?

The Chair: No. Dan Albas and I were at breakfast this morning at 7 a.m.

Mr. Raj Grewal: Instead of tonight, can we sit after caucus tomorrow from 12 to—

The Chair: I think everything is tied up tomorrow.

We'll meet tonight from 6:30 to 8.

The meeting is adjourned.

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